

WASATCH YOUTH SUPPORT SYSTEMS

FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

The logo consists of the letters "MHM" in a white, bold, sans-serif font, centered within a solid black square.

Mayer Hoffman McCann P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

WASATCH YOUTH SUPPORT SYSTEMS

We have audited the accompanying statements of financial position of Wasatch Youth Support Systems (the "Organization") as of December 31, 2006 and 2005 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Wasatch Youth Support Systems as of December 31, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of Wasatch Youth Support Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Mayer Hoffman McCann P.C.

Salt Lake City, Utah
June 28, 2007

WASATCH YOUTH SUPPORT SYSTEMS

STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

ASSETS

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|------------------|
| CURRENT ASSETS | | |
| Cash | \$ 20,064 | \$ 15,366 |
| Contracts receivable | 13,150 | 28,344 |
| Unconditional promises to give | 102,632 | 34,233 |
| Prepaid expenses | 2,600 | 1,292 |
| TOTAL CURRENT ASSETS | <u>138,446</u> | <u>79,235</u> |
| PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation and amortization | <u>30,539</u> | <u>13,255</u> |
| TOTAL ASSETS | <u>\$ 168,985</u> | <u>\$ 92,490</u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------------|-------------------|------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 15,855 | \$ 4,304 |
| Accrued liabilities | 15,615 | 17,459 |
| Loan payable - related party | 5,000 | 9,000 |
| TOTAL CURRENT LIABILITIES | <u>36,470</u> | <u>30,763</u> |
| NET ASSETS | | |
| Unrestricted | 88,032 | 27,494 |
| Temporarily restricted | 44,483 | 34,233 |
| TOTAL NET ASSETS | <u>132,515</u> | <u>61,727</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 168,985</u> | <u>\$ 92,490</u> |

See notes to Financial Statements

WASATCH YOUTH SUPPORT SYSTEMS
STATEMENTS OF ACTIVITIES

Years Ended December 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| SUPPORT AND REVENUE | | |
| SL County Division of Substance Abuse - | | |
| Treatment | \$ 169,973 | \$ 179,918 |
| Prevention | 72,572 | 73,255 |
| Contributions | 62,464 | - |
| United Way | 44,110 | 33,770 |
| Medicaid | 31,158 | 66,069 |
| Client fees | 13,116 | 19,822 |
| Youth corrections division | 5,549 | 5,702 |
| Miscellaneous income | 941 | 416 |
| Interest income | 152 | 106 |
| TOTAL REVENUE AND SUPPORT | <u>400,035</u> | <u>379,058</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>34,233</u> | <u>34,668</u> |
| TOTAL SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS | <u>434,268</u> | <u>413,726</u> |
| EXPENSES | | |
| Program services | | |
| Out-patient counseling | 335,486 | 391,958 |
| Supporting services | | |
| Management and general | 33,198 | 33,166 |
| Fundraising | 5,046 | 4,853 |
| TOTAL EXPENSES | <u>373,730</u> | <u>429,977</u> |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | <u>60,538</u> | <u>(16,251)</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| United Way | 44,483 | 34,233 |
| Net assets released from restrictions | <u>(34,233)</u> | <u>(34,668)</u> |
| INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS | <u>10,250</u> | <u>(435)</u> |
| CHANGE IN NET ASSETS | 70,788 | (16,686) |
| NET ASSETS, BEGINNING OF YEAR | <u>61,727</u> | <u>78,413</u> |
| NET ASSETS, END OF YEAR | <u>\$ 132,515</u> | <u>\$ 61,727</u> |

See notes to Financial Statements

WASATCH YOUTH SUPPORT SYSTEMS
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2006

| | Program Services | Supporting Services | | Total Expenses |
|--|---------------------------|---------------------------|-----------------|-------------------|
| | Out-patient Counseling | Management and General | Fundraising | |
| Salaries and wages | \$ 217,659 | \$ 10,503 | \$ 4,241 | \$ 232,403 |
| Employee benefits and taxes | 38,802 | 4,487 | 805 | 44,094 |
| TOTAL SALARIES AND RELATED EXPENSES | 256,461 | 14,990 | 5,046 | 276,497 |
| Professional services | 33,502 | 8,375 | - | 41,877 |
| Occupancy expense | 17,706 | 4,426 | - | 22,132 |
| Office expense | 10,364 | 3,204 | - | 13,568 |
| Specific assistance and awards | 6,453 | - | - | 6,453 |
| Depreciation and amortization | 3,645 | 1,562 | - | 5,207 |
| Insurance | 3,373 | - | - | 3,373 |
| Travel and vehicle expenses | 2,552 | 284 | - | 2,836 |
| Repairs and maintenance | 1,430 | 357 | - | 1,787 |
| TOTAL EXPENSES | \$ 335,486 | \$ 33,198 | \$ 5,046 | \$ 373,730 |

See notes to Financial Statements

WASATCH YOUTH SUPPORT SYSTEMS
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2005

| | Program Services | Supporting Services | | |
|--|---------------------------|---------------------------|-----------------|-------------------|
| | Out-patient Counseling | Management and General | Fundraising | Total Expenses |
| Salaries and wages | \$ 268,210 | \$ 15,387 | \$ 4,193 | \$ 287,790 |
| Employee benefits and taxes | 42,164 | 2,421 | 660 | 45,245 |
| TOTAL SALARIES AND RELATED EXPENSES | 310,374 | 17,808 | 4,853 | 333,035 |
| Professional services | 34,850 | 4,573 | - | 39,423 |
| Occupancy expense | 17,787 | 4,447 | - | 22,234 |
| Office expense | 11,862 | 3,900 | - | 15,762 |
| Depreciation and amortization | 4,014 | 1,721 | - | 5,735 |
| Specific assistance and awards | 4,094 | 151 | - | 4,245 |
| Travel and vehicle expenses | 3,643 | 83 | - | 3,726 |
| Insurance | 3,402 | - | - | 3,402 |
| Repairs and maintenance | 1,932 | 483 | - | 2,415 |
| TOTAL EXPENSES | \$ 391,958 | \$ 33,166 | \$ 4,853 | \$ 429,977 |

See notes to Financial Statements

WASATCH YOUTH SUPPORT SYSTEMS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 70,788 | \$ (16,686) |
| Adjustments to reconcile change in net assets to net cash used for operating activities: | | |
| Depreciation and amortization | 5,207 | 5,735 |
| Property and equipment donations | (2,400) | - |
| Decrease (increase) in operating assets: | | |
| Contracts receivable | 15,194 | (9,456) |
| Unconditional promises to give | (68,399) | 435 |
| Prepaid expenses | (1,308) | 511 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 11,551 | (1,152) |
| Accrued liabilities | (1,844) | (4,318) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>28,789</u> | <u>(24,931)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (20,091) | (1,824) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | <u>(20,091)</u> | <u>(1,824)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on loan payable - related party | (9,000) | - |
| Proceeds from loan payable - related party | 5,000 | 9,000 |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | <u>(4,000)</u> | <u>9,000</u> |
| NET INCREASE (DECREASE) IN CASH | 4,698 | (17,755) |
| CASH, BEGINNING OF YEAR | <u>15,366</u> | <u>33,121</u> |
| CASH, END OF YEAR | <u><u>\$ 20,064</u></u> | <u><u>\$ 15,366</u></u> |

See notes to Financial Statements

WASATCH YOUTH SUPPORT SYSTEMS

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations - Wasatch Youth Support Systems (WYSS) was incorporated on March 31, 1980, as a non-profit corporation for the purpose of advancing and promoting the welfare and interests of children and youth who, for whatever reasons, are unable to take full advantage of the opportunities of our society. WYSS sponsors a program for the treatment of chronic delinquent behavior and alcohol and drug abuse that includes outpatient-counseling services for youth located in the Salt Lake City, Utah area. WYSS is operating under the support of the United Way and various governmental entities. Most of the support is contracted on a year-to-year basis and continued operations are dependent upon the renewal of such contracts.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of accounting and presentation - The accompanying financial statements have been prepared using the accrual basis of accounting. WYSS follows the generally accepted accounting principles for not-for-profit organizations and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Classification of net assets is based upon the existence or absence of donor restrictions. As of December 31, 2006 and 2005, WYSS did not have any permanently restricted net assets.

Property and equipment - Property and equipment are stated at cost. Donated property and equipment are stated at estimated fair market value at the date of contribution. Property and equipment with an original value of \$500 or more and a useful life of more than a year is capitalized. Depreciation and amortization are computed by the following and estimated useful lives:

| <u>Assets</u> | <u>Methods</u> | <u>Useful Lives</u> |
|---------------------------------|----------------|---------------------|
| Office equipment | Straight-line | 5 - 7 years |
| Leasehold improvements | Straight-line | 5 - 7 years |
| Program furniture and equipment | Straight-line | 5 - 10 years |

Contracts receivable and support recognition - Support is received from governmental entities on a "fee-for-service" basis, in which WYSS is reimbursed for services provided within specified contract limits. Revenue is recognized when services are performed and the contracts are billed. An allowance has not been provided for contracts receivable as of December 31, 2006 and 2005 as all amounts are considered collectible.

Unconditional promises to give - Unconditional promises to give are recorded at their estimated fair value in the year the promise is received. All balances are due within one year and are considered to be fully collectible.

WASATCH YOUTH SUPPORT SYSTEMS

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Contributions - Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use in the appropriate time period, unless specifically restricted by the donor. Amounts that are restricted for future periods or restricted for specific purposes are reported as temporarily restricted or permanently restricted support and increase these net asset classes.

When a donor-stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Functional allocation of expenses - The costs of programs and supporting services have been summarized on a functional basis in the statement of activities. All direct costs are charged to the functional area they pertain to. Indirect costs are charged to programs and supporting services based on estimates made by management taking into account the nature of the expense and how it relates to the functional area. Management and general costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support of the organization.

Reclassification - Certain items in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

Income taxes - The organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provision has been made for federal income tax.

(2) Contracts receivable

Contracts receivable are deemed to be fully collectible and are comprised of the following amounts:

| | Years Ending December 31, | |
|--|----------------------------------|------------------|
| | 2006 | 2005 |
| Salt Lake County Division of Substance Abuse – | | |
| Treatment | \$ 9,046 | \$ 13,914 |
| Prevention | 2,247 | 4,749 |
| Youth Correction | - | 1,584 |
| Medicaid | 1,528 | 8,027 |
| Other | 329 | 70 |
| | <hr/> | <hr/> |
| Totals | \$ 13,150 | \$ 28,344 |

WASATCH YOUTH SUPPORT SYSTEMS

NOTES TO FINANCIAL STATEMENTS

(3) Property and equipment

Property and equipment consists of the following:

| | <u>Years Ending December 31,</u> | |
|---|----------------------------------|------------------|
| | <u>2006</u> | <u>2005</u> |
| Cost | | |
| Office equipment | \$ 33,386 | \$ 28,869 |
| Leasehold improvements | 23,415 | 7,841 |
| Program furniture and equipment | 8,447 | 8,602 |
| Vehicle | 2,400 | - |
| Total cost | 67,648 | 45,312 |
| Accumulated depreciation and amortization | 37,109 | 32,057 |
| Net property and equipment | <u>\$ 30,539</u> | <u>\$ 13,255</u> |

Depreciation and amortization expense for the years ending December 31, 2006 and 2005 totaled \$5,207 and \$5,735, respectively.

(4) Temporarily restricted net assets

Temporarily restricted net assets consist of unconditional promises to give of \$44,483 and \$34,233 as of December 31, 2006 and 2005, respectively.

(5) Operating lease commitments

WYSS leases office space under an operating lease agreement. WYSS retains the option to terminate the lease in case of loss of funding sources by giving thirty days written notice to the landlord prior to the termination date of the lease. Rental expense under this agreement was \$22,132 and \$22,234 for the years ended December 31, 2006 and 2005, respectively. The following is a schedule of future minimum lease payments:

| <u>Years Ending December 31,</u> | <u>Total</u> |
|----------------------------------|-----------------|
| 2007 | <u>\$ 7,673</u> |

(6) Related party transaction

During the year ended December 31, 2006, WYSS paid off a non-interest bearing loan of \$9,000 to the Executive Director, who loaned the money to WYSS in 2005.

In addition, during the year ended December 31, 2006, the Executive Director, loaned WYSS \$5,000, all of which is due as a loan payable at December 31, 2006. The loan is non-interest bearing and the organization expects to repay the loan before December 31, 2007.

WASATCH YOUTH SUPPORT SYSTEMS

NOTES TO FINANCIAL STATEMENTS

(7) Economic dependency

WYSS is dependent upon two funding sources, the loss of which could have an adverse effect on the operations of WYSS. These funding sources accounted for approximately 75% and 83% of total support for the years ended December 31, 2006 and 2005, respectively.

(8) Concentration of credit risk

WYSS maintains substantially all cash balances with financial institutions located in the State of Utah. Accounts at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. The organization had no uninsured balances as of December 31, 2006 or 2005.

(9) Cash flow disclosures

Cash consists of cash on hand and demand deposits with financial institutions.

During the year ended December 31, 2006, WYSS received a donated vehicle valued at \$2,400. The donation was included with contributions on the statement of activities.

OTHER REPORTS



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors

WASATCH YOUTH SUPPORT SYSTEMS

We have audited the financial statements of the Wasatch Youth Support Systems, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wasatch Youth Support Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wasatch Youth Support System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2006-01, 2006-02, 2006-03, and 2006-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2006-03 and 2006-04 to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether Wasatch Youth Support Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Wasatch Youth Support Systems' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on the responses.

This report is intended for the information of Wasatch Youth Support Systems' management, Board of Directors, Salt Lake County Division of Substance Abuse Services and other regulatory bodies. It is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffman McCann P.C.

Salt Lake City, Utah
June 28, 2007

WASATCH YOUTH SUPPORT SYSTEMS**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND CORRECTIVE ACTION PLAN**

Year Ended December 31, 2006

FINANCIAL STATEMENT AUDIT FINDINGS**Item: 2006-01****Subject:** Segregation of Duties

Condition: *Wasatch Youth Support Systems* has a limited number of office personnel and, accordingly, does not have sufficient internal control in certain areas because of inadequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that assets are safeguarded.

Effect: Because of the failure of segregation of duties, a misappropriation of assets could occur.

Recommendation: Although *Wasatch Youth Support Systems* has a review process in place to mitigate the risk of misappropriation, to ensure a proper accounting segregation of duties, we believe that *Wasatch Youth Support Systems* should further segregate the accounting duties of physical access to cash, general ledger access, billing, and disbursements.

Item: 2006-02**Subject:** Revenue Recognition – Donated Items

Condition: *Wasatch Youth Support Systems* did not properly record a donated asset.

Criteria: Donated items need to be fairly valued and recorded in order to properly state activities.

Effect: Because of the failure to record donated items, revenue and assets or expenses could be misstated.

Recommendation: *Wasatch Youth Support Systems* should prepare written instructions to be included as a part of the accounting policies and procedures manual that indicates the concepts of revenue recognition for donated items. We recommend that management and the individual responsible for recording donated items track and discuss donations received during the year and post any necessary entries.

Item: 2006-03**Subject:** Revenue Recognition – Unconditional Promises to Give

Condition: *Wasatch Youth Support Systems* did not properly record an unconditional promise to give received before year end.

FINANCIAL STATEMENT AUDIT FINDINGS

Criteria: Unconditional promises to give should be recorded based on when the promise is received not on when the payment is received. Proper cutoffs are critical for the accuracy of the accrual basis of accounting.

Effect: Because of the failure to record unconditional promises to give and achieve proper cutoffs, revenues and related receivables may not be recorded in the proper period.

Recommendation: *Wasatch Youth Support Systems* should prepare written instructions to be included as a part of the accounting policies and procedures manual that indicates the concepts of revenue recognition for unconditional promises to give. We recommend that management and the individual responsible for recording unconditional promises to give track and discuss any possible unrecorded unconditional promises received during the year and post any necessary entries.

Item: 2006-04

Subject: Financial Reporting

Condition: *Wasatch Youth Support Systems* lacks the resources and capabilities to establish an effective system of internal controls over financial reporting.

Criteria: An internal control system with adequate controls to prevent, detect or correct material misstatements in the financial statements should be in place and operating effectively.

Effect: This could result in a material misstatement in the financial statements that would not be prevented, detected or corrected.

Recommendation: *Wasatch Youth Support Systems* should design and implement effective controls that would prevent or detect material misstatements in the preparation of the financial statements.

CORRECTIVE ACTION PLAN

Item: 2006-01

Subject: Segregation of Duties

Name of Contact Person: James Marchel

Phone Number: (801) 969-3307

Anticipated Completion Date: December 31, 2007

Corrective Action: Management has assessed the segregation of duties issue and has determined that segregating duties further would not be cost beneficial to the Organization due to budgetary constraints. Management feels the mitigating controls that are in place adequately reduce the risks to appropriate levels.

CORRECTIVE ACTION PLAN

Item: 2006-02

Subject: Revenue Recognition – Donated Items

Name of Contact Person: James Marchel

Phone Number: (801) 969-3307

Anticipated Completion Date: December 31, 2007

Corrective Action: Management will review accounting policies and procedures in place over recognizing donated items and will establish additional controls in this area.

Item: 2006-03

Subject: Revenue Recognition – Unconditional Promises to Give

Name of Contact Person: James Marchel

Phone Number: (801) 969-3307

Anticipated Completion Date: December 31, 2007

Corrective Action: Management will review accounting policies and procedures in place over recognizing unconditional promises to give and will establish additional controls in this area.

Item: 2006-04

Subject: Financial Reporting

Name of Contact Person: James Marchel

Phone Number: (801) 969-3307

Anticipated Completion Date: December 31, 2007

Corrective Action: Management will review accounting policies and procedures in place over financial reporting and will establish additional controls in this area.

MHM**Mayer Hoffman McCann P.C.**

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**INDEPENDENT AUDITORS' REPORT
ON STATE LEGAL COMPLIANCE**

We have audited the financial statements of Wasatch Youth Support Systems, a non-profit corporation, for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007.

As part of our audit we have audited Wasatch Youth Support Systems' compliance with the requirements governing types of services allowed or unallowed, eligibility; matching; level of effort or earmarking; reporting; special tests and provisions applicable to its major State assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended December 31, 2006. Wasatch Youth Support Systems received the following major assistance program from the State of Utah through Salt Lake County:

Division of Substance Abuse Contract (Department of Human Services) passed through the Salt Lake County Division of Substance Abuse Services.

The management of Wasatch Youth Support Systems is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Wasatch Youth Support Systems' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Wasatch Youth Support Systems complied, in all material respects, with the requirements governing types of services allowed or unallowed, eligibility; matching; level of effort or earmarking; reporting and special tests and provisions applicable to its major State assistance program for the year ended December 31, 2006.



Salt Lake City, Utah
June 28, 2007



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• June 28, 2007

Management and the Board of Directors
Wasatch Youth Support Services
3392 West 3500 South
Salt Lake City, UT 84119

In planning and performing our audit of the financial statements of Wasatch Youth Support Systems (the Organization) as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

During our 2006 audit, we identified certain internal control matters that we wanted to bring to your attention. Internal control matters are generally classified into three categories: 1) control deficiency; 2) significant deficiency; and 3) material weakness. During the audit, we identified certain matters that we consider to be control deficiencies as well as other matters that we consider to be significant deficiencies. Some of the matters identified are general in nature and present opportunities for strengthening internal controls and improving operating efficiency. A definition for each type of deficiencies is as follows:

Control Deficiency – A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Significant Deficiency – A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Material Weakness – A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We appreciate the opportunity to present these comments and suggestions and can discuss these matters further at your convenience, along with any implementation assistance for changes and improvements you may require.

This communication is intended solely for the information and use of management, others within the organization, and Salt Lake County Division of Substance Abuse Services and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann PC

Salt Lake City
June 28, 2007

CONTROL DEFICIENCIES**Cash****Observation:**

MHM noted that no logs are maintained of cash payments to counselors that include patient signatures verifying their payment.

Recommendation:

We recommend that staff maintain a log of patient payments that management can use to reconcile to bank deposits.

Observation:

MHM noted that bank deposits are made only once a week.

Recommendation:

We recommend that deposits be made more frequently in order to avoid loss.

Board Minutes**Observation:**

MHM noted that the Organization does not prepare or maintain minutes for Board meetings.

Recommendation:

We recommend that minutes should be kept for all board meetings and should be retained by the Organization.

Related party transactions**Observation:**

MHM noted that no written agreements related to a loan from the executive director are maintained.

Recommendation:

We recommend that transactions with related parties be documented with formal agreements.

BillingsObservation:

During our testing treatment billings we noted that certain patient treatments were not billed to Salt Lake County.

Recommendation:

We recommend that procedures and policies be put in place to ensure that all eligible patient treatments are billed.

DepreciationObservation:

During our testing of fixed assets we noted that improper depreciable lives of 39 years were used for some leasehold improvements. Leasehold improvements should be depreciated over the lesser of the lease term or the estimated useful life.

Recommendation:

We recommend that policies and procedures be put in place to evaluate the reasonableness of selected depreciable lives of fixed assets.

SIGNIFICANT CONTROL DEFICIENCIES**Donations**Observation:

During our audit testing, we noted that a donated vehicle was not properly recorded.

Recommendation:

We recommend that a system be put in place to detect and record all donated materials and services received during the year.

Segregation of dutiesObservation:

MHM became aware of certain areas where there was inadequate segregation of duties. We noted that one employee enters vendors into the system and is responsible for preparing disbursements. The same employee is also responsible for creating and sending invoices, posting payments and preparing and making deposits.

Recommendation:

A good system of internal control provides for a proper segregation of accounting duties. The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records, nor should they have access to all phases of a transaction.

We recommend that the Organization perform the following analysis:

- Prepare a list or flowchart outlining personnel and the accounting duties they perform
- Identify incompatible duties
- Reassign responsibility for these duties to improve controls
- Monitor the results at least annually so that as job responsibilities change, existing controls are not compromised

MATERIAL WEAKNESSES**Unconditional promises to give****Observation:**

During our audit testing, we noted that an unconditional promise to give received in 2006 was not properly recorded at year end. Promises to give should be recorded when the promise is received instead of waiting until the payment is received.

Recommendation:

We recommend that policies and procedures be put in place to detect and record all unconditional promises to give received during the year.

Financial Statements**Observation:**

MHM noted that management does not have an adequate system in place to prepare its own financial statements in accordance with generally accepted accounting principles (GAAP).

Recommendation:

We recommend that a system with adequate controls to prevent, detect or correct material misstatements in the financial statements be implemented.